

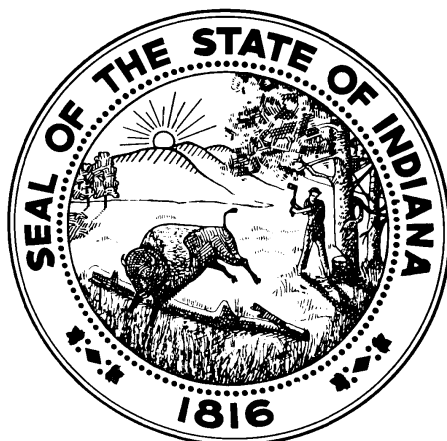
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA



**FILED**  
09/09/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis .....	7
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds .....	8
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds .....	9
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds .....	10
Notes to Financial Statements .....	11-23
Required Supplementary Information:	
Schedules of Funding Progress .....	24
Schedules of Contributions From the Employer and Other Contributing Entities .....	25
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds .....	26-31
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Pension Trust Funds .....	32
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Agency Funds .....	33
Schedule of Capital Assets .....	34
Schedule of Long-Term Debt .....	35
Audit Results and Comments:	
Appropriations .....	36
Accounts Receivable .....	36
Temporary Loans Between Funds .....	36-38
Overdrawn Fund Balance .....	38
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	40-41
Schedule of Expenditures of Federal Awards .....	42
Note to Schedule of Expenditures of Federal Awards .....	43
Schedule of Findings and Questioned Costs .....	44
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings .....	45
Exit Conference .....	46

## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Lou Peden	01-01-07 to 12-31-11
Mayor	Shannon L. Buskirk Phil R. Deckard	01-01-07 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works	Shannon L. Buskirk Phil R. Deckard	01-01-07 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Gary Lester	01-01-07 to 12-31-08
Superintendent of Utilities	Ron Kivett Kevin Broyer	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Utility Office Manager	Mindy Martlage Mary Malone	01-01-07 to 12-31-07 01-01-08 to 12-31-08



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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martinsville (City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2007, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated July 28, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Schedules of Funding Progress and the Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

July 28, 2008



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martinsville (City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, Common Council, Board of Works, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 28, 2008



CITY OF MARTINSVILLE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 2,486,691	\$ 1,563,879	\$ 1,007,517	\$ 84,705	\$ -	\$ 84,705
Public safety	3,795,130	499,735	4,590	(3,290,805)	-	(3,290,805)
Highways and streets	1,865,663	-	737,918	(1,127,745)	-	(1,127,745)
Sanitation	1,178,134	513,241	-	(664,893)	-	(664,893)
Health and welfare	-	110	-	110	-	110
Economic development	479,673	-	-	(479,673)	-	(479,673)
Culture and recreation	434,460	64,949	28,940	(340,571)	-	(340,571)
Principal and interest on indebtedness	127,909	-	-	(127,909)	-	(127,909)
Total governmental activities	10,367,660	2,641,914	1,778,965	(5,946,781)	-	(5,946,781)
Business-type activities:						
Water	3,358,992	1,202,847	-	-	(2,156,145)	(2,156,145)
Wastewater	3,401,590	2,524,628	-	-	(876,962)	(876,962)
Total business-type activities	6,760,582	3,727,475	-	-	(3,033,107)	(3,033,107)
Total primary government	\$ 17,128,242	\$ 6,369,389	\$ 1,778,965	(5,946,781)	(3,033,107)	(8,979,888)
General receipts:						
Property taxes				3,640,640	-	3,640,640
Intergovernmental				2,438,536	-	2,438,536
Other local sources				364,446	295,144	659,590
Net proceeds from borrowings				-	2,199,501	2,199,501
Grants and contributions not restricted to specific programs				1,055	-	1,055
Investment earnings				54,855	95,097	149,952
Interfund loans				150,000	(150,000)	-
Total general receipts and interfund loans				6,649,532	2,439,742	9,089,274
Change in net assets				702,751	(593,365)	109,386
Net assets - beginning				3,675,308	3,121,828	6,797,136
Net assets - ending				\$ 4,378,059	\$ 2,528,463	\$ 6,906,522
<u>Assets</u>						
Cash and investments				\$ 1,555,984	\$ 867,196	\$ 2,423,180
Restricted assets:						
Cash and investments				2,822,075	1,661,267	4,483,342
Total assets				\$ 4,378,059	\$ 2,528,463	\$ 6,906,522
<u>Net Assets</u>						
Restricted for:						
Public safety				\$ 322,169	\$ -	\$ 322,169
Highways and streets				529,651	-	529,651
Sanitation				265,254	-	265,254
Culture and recreation				107,693	-	107,693
Debt service				-	32,426	32,426
Capital outlay				1,115,270	-	1,115,270
Other purposes				482,038	1,628,841	2,110,879
Unrestricted				1,555,984	867,196	2,423,180
Total net assets				\$ 4,378,059	\$ 2,528,463	\$ 6,906,522

The notes to the financial statements are an integral part of this statement.

CITY OF MARTINSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Food And Beverage	County Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 2,323,739	\$ 870,625	\$ -	\$ -	\$ 446,276	\$ 3,640,640
Special assessments	-	-	-	-	8,235	8,235
Licenses and permits	15,595	-	-	-	5,015	20,610
Intergovernmental	2,438,536	623,288	321,838	525,172	308,667	4,217,501
Charges for services	121,156	-	-	-	587,942	709,098
Fines and forfeits	159,600	-	-	-	295,270	454,870
Interfund loans	65,000	265,000	-	-	15,000	345,000
Other	216,253	10,230	-	-	208,218	434,701
Total receipts	5,339,879	1,769,143	321,838	525,172	1,874,623	9,830,655
Disbursements:						
General government	983,658	-	15,075	-	7,919	1,006,652
Public safety	3,537,872	-	-	-	257,258	3,795,130
Highways and streets	84,975	1,698,070	-	-	82,618	1,865,663
Sanitation	768,419	-	-	-	409,715	1,178,134
Culture and recreation	-	-	-	-	434,460	434,460
Interfund loans	180,000	-	-	-	15,000	195,000
Debt service:						
Principal	-	-	-	-	120,000	120,000
Interest	-	-	-	-	7,909	7,909
Capital outlay:						
Economic development	-	-	-	248,090	231,583	479,673
Total disbursements	5,554,924	1,698,070	15,075	248,090	1,566,462	9,082,621
Excess (deficiency) of receipts over disbursements	(215,045)	71,073	306,763	277,082	308,161	748,034
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(215,045)	71,073	306,763	277,082	308,161	748,034
Cash and investment fund balance - beginning	1,220,637	400,252	215,235	600,944	1,024,333	3,461,401
Cash and investment fund balance - ending	\$ 1,005,592	\$ 471,325	\$ 521,998	\$ 878,026	\$ 1,332,494	4,209,435
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:						
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.						168,624
Net assets of governmental activities						\$ 4,378,059
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 1,005,592	\$ -	\$ 521,998	\$ -	\$ 28,394	\$ 1,555,984
Restricted assets:						
Cash and investments	-	471,325	-	878,026	1,304,100	2,653,451
Total cash and investment assets - ending	\$ 1,005,592	\$ 471,325	\$ 521,998	\$ 878,026	\$ 1,332,494	\$ 4,209,435
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 322,169	\$ 322,169
Highways and streets	-	471,325	-	-	58,326	529,651
Sanitation	-	-	-	-	265,254	265,254
Culture and recreation	-	-	-	-	107,693	107,693
Capital outlay	-	-	-	878,026	237,244	1,115,270
Other purposes	-	-	-	-	313,414	313,414
Unrestricted	1,005,592	-	521,998	-	28,394	1,555,984
Total cash and investment fund balance - ending	\$ 1,005,592	\$ 471,325	\$ 521,998	\$ 878,026	\$ 1,332,494	\$ 4,209,435

The notes to the financial statements are an integral part of this statement.

CITY OF MARTINSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Totals	Internal Service Funds
Operating receipts:				
Water customer receipts	\$ 1,187,227	\$ -	\$ 1,187,227	\$ -
Fire protection receipts	4,608	-	4,608	-
Wastewater customer receipts	-	2,406,779	2,406,779	-
Charges for services	11,012	117,849	128,861	-
Miscellaneous	-	-	-	1,434,756
Total operating receipts	<u>1,202,847</u>	<u>2,524,628</u>	<u>3,727,475</u>	<u>1,434,756</u>
Operating disbursements:				
Salaries and wages	305,481	524,533	830,014	-
Employee pensions and benefits	171,365	197,716	369,081	-
Utility expense	12,936	-	12,936	-
Chemicals	17,583	107,703	125,286	-
Material and supplies	151,119	84,744	235,863	-
Contractual services	655,130	611,092	1,266,222	-
Insurance claims and expense	40,460	-	40,460	1,480,039
Miscellaneous disbursements	69,617	578	70,195	-
Total operating disbursements	<u>1,423,691</u>	<u>1,526,366</u>	<u>2,950,057</u>	<u>1,480,039</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(220,844)</u>	<u>998,262</u>	<u>777,418</u>	<u>(45,283)</u>
Nonoperating receipts (disbursements):				
Net proceeds from borrowings	2,199,501	-	2,199,501	-
Debt service	(1,910,895)	(974,414)	(2,885,309)	-
Interest receipts	41,539	53,558	95,097	-
Customer deposit receipts	26,826	-	26,826	-
Customer deposit disbursements	(24,406)	-	(24,406)	-
Escrow receipts	-	242,383	242,383	-
Escrow disbursements	-	(329,719)	(329,719)	-
Miscellaneous receipts	-	25,935	25,935	-
Miscellaneous disbursements	-	(571,091)	(571,091)	-
Interfund loan proceeds	50,000	250,000	300,000	-
Interfund loan repayments	(400,000)	(50,000)	(450,000)	-
Total nonoperating receipts (disbursements)	<u>(17,435)</u>	<u>(1,353,348)</u>	<u>(1,370,783)</u>	<u>-</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	<u>(238,279)</u>	<u>(355,086)</u>	<u>(593,365)</u>	<u>(45,283)</u>
Deficiency of receipts, contributions and transfers in over disbursements and transfers out	<u>(238,279)</u>	<u>(355,086)</u>	<u>(593,365)</u>	<u>(45,283)</u>
Cash and investment fund balance - beginning	<u>548,500</u>	<u>2,573,328</u>	<u>3,121,828</u>	<u>213,907</u>
Cash and investment fund balance - ending	<u>\$ 310,221</u>	<u>\$ 2,218,242</u>	<u>\$ 2,528,463</u>	<u>\$ 168,624</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 177,080	\$ 690,116	\$ 867,196	\$ -
Restricted assets:				
Cash and investments	<u>133,141</u>	<u>1,528,126</u>	<u>1,661,267</u>	<u>168,624</u>
Total cash and investment assets - December 31	<u>\$ 310,221</u>	<u>\$ 2,218,242</u>	<u>\$ 2,528,463</u>	<u>\$ 168,624</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 32,107	\$ 319	\$ 32,426	\$ -
Other purposes	101,034	1,527,807	1,628,841	168,624
Unrestricted	<u>177,080</u>	<u>690,116</u>	<u>867,196</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 310,221</u>	<u>\$ 2,218,242</u>	<u>\$ 2,528,463</u>	<u>\$ 168,624</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARTINSVILLE  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2007

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 335,118	\$ -
Plan members	7,228	-
State	13,760	-
	<u>356,106</u>	<u>-</u>
Total contributions	356,106	-
Agency fund additions	-	5,962,746
	<u>-</u>	<u>5,962,746</u>
Total additions	356,106	5,962,746
	<u>356,106</u>	<u>5,962,746</u>
Deductions:		
Administrative and general	342,895	-
Agency fund deductions	-	5,958,036
	<u>342,895</u>	<u>5,958,036</u>
Total deductions	342,895	5,958,036
	<u>342,895</u>	<u>5,958,036</u>
Excess of total additions over total deductions	13,211	4,710
Cash and investment fund balance - beginning	194,101	120,401
	<u>194,101</u>	<u>120,401</u>
Cash and investment fund balance - ending	<u>\$ 207,312</u>	<u>\$ 125,111</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

These financial statements present the City (primary government). There are no significant component units which require inclusion.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund is used for the construction, reconstruction, repair and maintenance of the city's highways.

The food and beverage fund is used to construct, improve or renovate city owned capital assets.

The county economic development income tax fund is used to finance the city's economic development projects.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

Additionally, the City reports the following fund types:

The employee benefit trust fund, an internal service fund, is used to account for medical and dental benefits for city employees.

The pension trust funds account for the activities of the 1925 police officer's pension fund and the 1937 firefighters' pension fund which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for the State and County for court fees and to the various taxing and insurance agencies for payroll related withholdings.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily within the government.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a



CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2007, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

<u>Fund</u>	<u>2007</u>
Local Road and Street	\$ <u>32,768</u>

These disbursements were funded by available fund balance.

C. Cash and Investment Balance Deficits

At December 31, 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

<u>Fund</u>	<u>2007</u>
Block Grant Law Enforcement	\$ <u>1,253</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

Deposits and Investments

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2007, the bank balance held at various financial institutions in the amount of \$5,032,294 was collateralized with securities held by the

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

pledging financial institution. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2007, the City had the following investments:

Investment Type	Primary Government Market Value
Repurchase agreements	\$ 5,032,294

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the City to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the City's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments. At December 31, 2007, the City held investments in overnight sweep agreements collateralized by U.S. Government Securities in the amount of \$5,032,294. Of these investments \$5,032,294 were held by the Counterparty.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Repurchase agreements	\$ 5,032,294	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The City does not have any investments subject to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement. The City does not have any investments subject to credit risk.

Foreign Currency Risk

The City does not have a formal policy in regards to foreign currency risk. The City does not have any investments subject to foreign currency risk.

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The City has chosen to establish a risk financing fund for risks associated with medical and dental benefits. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$35,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external inter-fund transactions.

Job Related Illness or Injuries to Employees

During 1992, the City joined together with 723 other governmental entities to form the Indiana Public Employers' Plan, a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. The risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illness or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The City has entered into a capital lease with the City of Martinsville Government Facility Holding Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments to the lessor are scheduled to commence July 15, 2009.

C. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment medical, dental, vision and prescription medication benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age 50 with at least 20 years of service or age 55 with at least 10 years of service. Currently, two retirees meet these eligibility requirements. The City and retirees each provide 50% of these postemployment benefits for those retirees that retire with 10 to 15 years of service and 75% and 25%, respectively, of these post-employment benefits for those retirees that retire with 15 to 20 years of service. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2007, disbursements of \$10,884 were recognized for postemployment benefits.

D. Subsequent Events

The weekend of June 7<sup>th</sup> and 8<sup>th</sup>, 2008, the Martinsville area suffered substantial flooding. Estimates of damages to infrastructure and City facilities are incomplete. Federal funding for a significant portion of the recovery costs are anticipated but the exact amount is unknown at this time.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 5, 2005.

Wastewater Utility

The current rate structure was approved by the City Council on March 6, 2006.

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 115,070	\$ 262,000	\$ 247,900
Interest on net pension obligation	(10,851)	48,600	42,700
Adjustment to annual required contribution	12,366	(60,400)	(53,100)
Annual pension cost	116,585	250,200	237,500
Contributions made	124,336	167,661	188,445
Increase (decrease) in net pension obligation	(7,751)	82,539	49,055
Net pension obligation, beginning of year	(149,669)	810,361	711,689
Net pension obligation, end of year	<u>\$ (157,420)</u>	<u>\$ 892,900</u>	<u>\$ 760,744</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6.4%	326%	617%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-07	01-01-07	01-01-07
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

\* 2.75% converted members; 4% nonconverted members

CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 82,892	136%	\$ (138,516)
	06-30-06	100,568	111%	(149,669)
	06-30-07	116,585	107%	(157,420)
1925 Police Officers' Pension Plan	12-31-05	242,500	46%	741,721
	12-31-06	248,000	72%	810,361
	12-31-07	250,200	67%	892,900
1937 Firefighters' Pension Plan	12-31-05	226,900	45%	666,189
	12-31-06	234,300	81%	711,689
	12-31-07	237,500	79%	760,744

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	8	10
Current active employees	2	1

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:



CITY OF MARTINSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$293,789, \$278,612, and \$225,923, respectively, equal to the required contributions for each year.

CITY OF MARTINSVILLE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	1,470,395	1,755,216	(284,821)	84%	1,590,495	18%
07-01-06	1,575,601	1,746,195	(170,594)	90%	1,781,854	10%
07-01-07	1,787,025	2,022,049	(235,024)	88%	2,008,481	12%

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 128,887	\$ 3,200,700	\$ (3,071,813)	4%	\$ 69,400	(4,426%)
01-01-03	173,468	3,231,100	(3,057,632)	5%	71,500	(4,276%)
01-01-04	95,101	3,292,400	(3,197,299)	3%	73,500	(4,350%)
01-01-05	146,424	3,253,800	(3,107,376)	5%	75,500	(4,116%)
01-01-06	101,856	3,263,200	(3,161,344)	3%	78,200	(4,043%)
01-01-07	118,676	3,249,000	(3,130,324)	4%	80,300	(3,898%)

1937 Firefighter's Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 150,712	\$ 3,129,200	\$ (2,978,488)	5%	\$ 34,700	(8,584%)
01-01-03	177,205	2,989,100	(2,811,895)	6%	35,700	(7,876%)
01-01-04	136,933	3,145,200	(3,008,267)	4%	36,700	(8,197%)
01-01-05	140,067	3,143,100	(3,003,033)	4%	37,800	(7,945%)
01-01-06	67,809	3,237,400	(3,169,591)	2%	39,100	(8,106%)
01-01-07	75,425	3,258,400	(3,182,975)	2%	40,200	(7,918%)

CITY OF MARTINSVILLE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS FROM THE  
EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-02	\$ 351,200	51%	0%
	12-31-03	374,000	53%	0%
	12-31-04	393,400	26%	0%
	12-31-05	250,200	43%	2%
	12-31-06	258,100	67%	2%
	12-31-07	262,000	61%	3%
1937 Firefighters' Pension Plan	12-31-02	\$ 336,900	51%	0%
	12-31-03	338,400	49%	0%
	12-31-04	369,200	38%	0%
	12-31-05	233,800	44%	1%
	12-31-06	243,300	78%	2%
	12-31-07	247,900	72%	4%

CITY OF MARTINSVILLE  
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
OTHER GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	Local Road and Street	Fire House Donations	Planning and Zoning	Law Enforcement Continuing Education	Riverboat	Parks and Recreation
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 245,495
Special assessments	-	-	8,235	-	-	-
Licenses and permits	-	-	-	5,015	-	-
Intergovernmental	114,630	-	-	-	73,765	28,940
Charges for services	-	-	-	24,365	-	50,324
Fines and forfeits	-	-	-	650	-	-
Interfund loans	-	-	-	-	-	-
Other	-	1,000	-	58	-	68,307
Total receipts	114,630	1,000	8,235	30,088	73,765	393,066
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	12,825	-	-
Highways and streets	82,618	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	434,460
Interfund loans	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	82,618	-	-	12,825	-	434,460
Excess (deficiency) of receipts over disbursements	32,012	1,000	8,235	17,263	73,765	(41,394)
Cash and investment fund balance - beginning	26,314	1	118,187	10,392	(44,118)	147,748
Cash and investment fund balance - ending	<u>\$ 58,326</u>	<u>\$ 1,001</u>	<u>\$ 126,422</u>	<u>\$ 27,655</u>	<u>\$ 29,647</u>	<u>\$ 106,354</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 29,647	\$ -
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	58,326	1,001	126,422	27,655	-	106,354
Total cash and investment assets - ending	<u>\$ 58,326</u>	<u>\$ 1,001</u>	<u>\$ 126,422</u>	<u>\$ 27,655</u>	<u>\$ 29,647</u>	<u>\$ 106,354</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ -	\$ 1,001	\$ -	\$ 27,655	\$ -	\$ -
Highways and streets	58,326	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	106,354
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	126,422	-	-	-
Unrestricted	-	-	-	-	29,647	-
Total cash and investment fund balance - ending	<u>\$ 58,326</u>	<u>\$ 1,001</u>	<u>\$ 126,422</u>	<u>\$ 27,655</u>	<u>\$ 29,647</u>	<u>\$ 106,354</u>

CITY OF MARTINSVILLE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007  
 (Continued)

	DARE	Criminal Justice State	Operation Pullover	Fire Hydrant Maintenance	Police Camera Donation	Transfer Station
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	4,275	-	-	-
Charges for services	-	-	-	-	-	513,253
Fines and forfeits	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	15,000
Other	1,055	-	1,100	-	-	843
Total receipts	1,055	-	5,375	-	-	529,096
Disbursements:						
General government	-	-	-	-	-	-
Public safety	819	1,100	4,554	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	409,715
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	15,000
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	819	1,100	4,554	-	-	424,715
Excess (deficiency) of receipts over disbursements	236	(1,100)	821	-	-	104,381
Cash and investment fund balance - beginning	2,795	3,864	9	6,411	1,500	160,873
Cash and investment fund balance - ending	<u>\$ 3,031</u>	<u>\$ 2,764</u>	<u>\$ 830</u>	<u>\$ 6,411</u>	<u>\$ 1,500</u>	<u>\$ 265,254</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	3,031	2,764	830	6,411	1,500	265,254
Total cash and investment assets - ending	<u>\$ 3,031</u>	<u>\$ 2,764</u>	<u>\$ 830</u>	<u>\$ 6,411</u>	<u>\$ 1,500</u>	<u>\$ 265,254</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ 3,031	\$ 2,764	\$ 830	\$ -	\$ 1,500	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	265,254
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	6,411	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 3,031</u>	<u>\$ 2,764</u>	<u>\$ 830</u>	<u>\$ 6,411</u>	<u>\$ 1,500</u>	<u>\$ 265,254</u>

CITY OF MARTINSVILLE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007  
 (Continued)

	Pre-Trial Diversion	Court User Fees	Auditors Court Fees	Record Perpetuation	Parking Control	Recording Fees
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	184,779	-	78,344	8,468	-	2,282
Interfund loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total receipts	184,779	-	78,344	8,468	-	2,282
Disbursements:						
General government	-	-	-	4,441	-	-
Public safety	139,066	10,989	78,344	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	139,066	10,989	78,344	4,441	-	-
Excess (deficiency) of receipts over disbursements	45,713	(10,989)	-	4,027	-	2,282
Cash and investment fund balance - beginning	128,413	35,710	-	64,630	17,232	126
Cash and investment fund balance - ending	\$ 174,126	\$ 24,721	\$ -	\$ 68,657	\$ 17,232	\$ 2,408
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	174,126	24,721	-	68,657	17,232	2,408
Total cash and investment assets - ending	\$ 174,126	\$ 24,721	\$ -	\$ 68,657	\$ 17,232	\$ 2,408
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ 174,126	\$ 24,721	\$ -	\$ -	\$ 17,232	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	68,657	-	2,408
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 174,126	\$ 24,721	\$ -	\$ 68,657	\$ 17,232	\$ 2,408

CITY OF MARTINSVILLE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007  
 (Continued)

	Canine Donation	Reserve Police Grant (Vests)	Block Grant Law Enforcement	Bail Bond Administration	Judicial Salaries	Police Drug Evidence
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	315	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	1,940	18,807	-
Interfund loans	-	-	-	-	-	-
Other	-	-	-	-	-	303
Total receipts	-	315	-	1,940	18,807	303
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	400	-	-	1,923	5,515
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	-	400	-	-	1,923	5,515
Excess (deficiency) of receipts over disbursements	-	(85)	-	1,940	16,884	(5,212)
Cash and investment fund balance - beginning	275	470	(1,253)	2,420	22,757	15,276
Cash and investment fund balance - ending	<u>\$ 275</u>	<u>\$ 385</u>	<u>\$ (1,253)</u>	<u>\$ 4,360</u>	<u>\$ 39,641</u>	<u>\$ 10,064</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ (1,253)	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	275	385	-	4,360	39,641	10,064
Total cash and investment assets - ending	<u>\$ 275</u>	<u>\$ 385</u>	<u>\$ (1,253)</u>	<u>\$ 4,360</u>	<u>\$ 39,641</u>	<u>\$ 10,064</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ 275	\$ 385	\$ -	\$ 4,360	\$ 39,641	\$ 10,064
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	(1,253)	-	-	-
Total cash and investment fund balance - ending	<u>\$ 275</u>	<u>\$ 385</u>	<u>\$ (1,253)</u>	<u>\$ 4,360</u>	<u>\$ 39,641</u>	<u>\$ 10,064</u>

CITY OF MARTINSVILLE  
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
OTHER GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007  
(Continued)

	Environmental Renovation	Downtown Renovation	Speed Grant	Historical Grant	Police Drug Acquisition	Tri-Glass Escrow
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Other	-	-	-	-	32	31
Total receipts	-	-	-	-	32	31
Disbursements:						
General government	-	-	-	3,478	-	-
Public safety	-	-	-	-	1,723	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	-	-	-	3,478	1,723	-
Excess (deficiency) of receipts over disbursements	-	-	-	(3,478)	(1,691)	31
Cash and investment fund balance - beginning	1,146	1,300	2,287	3,700	13,988	2,007
Cash and investment fund balance - ending	<u>\$ 1,146</u>	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 222</u>	<u>\$ 12,297</u>	<u>\$ 2,038</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	1,146	1,300	2,287	222	12,297	2,038
Total cash and investment assets - ending	<u>\$ 1,146</u>	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 222</u>	<u>\$ 12,297</u>	<u>\$ 2,038</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ 2,287	\$ -	\$ 12,297	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	1,146	1,300	-	222	-	2,038
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 1,146</u>	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 222</u>	<u>\$ 12,297</u>	<u>\$ 2,038</u>



CITY OF MARTINSVILLE  
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
OTHER GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007  
(Continued)

	Park District Bond	Cumulative Capital Improvement Cigarette Tax	Cumulative Capital Development	Industrial Park Construction	Park and Recreation Improvements	Totals
Receipts:						
Taxes	\$ 89,857	\$ -	\$ 110,924	\$ -	\$ -	\$ 446,276
Special assessments	-	-	-	-	-	8,235
Licenses and permits	-	-	-	-	-	5,015
Intergovernmental	10,594	63,071	13,077	-	-	308,667
Charges for services	-	-	-	-	-	587,942
Fines and forfeits	-	-	-	-	-	295,270
Interfund loans	-	-	-	-	-	15,000
Other	193	-	135,296	-	-	208,218
Total receipts	100,644	63,071	259,297	-	-	1,874,623
Disbursements:						
General government	-	-	-	-	-	7,919
Public safety	-	-	-	-	-	257,258
Highways and streets	-	-	-	-	-	82,618
Sanitation	-	-	-	-	-	409,715
Culture and recreation	-	-	-	-	-	434,460
Interfund loans	-	-	-	-	-	15,000
Debt service:						
Principal	120,000	-	-	-	-	120,000
Interest	7,909	-	-	-	-	7,909
Capital outlay:						
Economic development	-	135,296	96,287	-	-	231,583
Total disbursements	127,909	135,296	96,287	-	-	1,566,462
Excess (deficiency) of receipts over disbursements	(27,265)	(72,225)	163,010	-	-	308,161
Cash and investment fund balance - beginning	28,108	177,035	33,837	40,397	496	1,024,333
Cash and investment fund balance - ending	\$ 843	\$ 104,810	\$ 196,847	\$ 40,397	\$ 496	\$ 1,332,494
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,394
Cash with fiscal agent	-	-	-	-	-	-
Restricted assets:						
Cash and investments	843	104,810	196,847	40,397	496	1,304,100
Total cash and investment assets - ending	\$ 843	\$ 104,810	\$ 196,847	\$ 40,397	\$ 496	\$ 1,332,494
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 322,169
Highways and streets	-	-	-	-	-	58,326
Sanitation	-	-	-	-	-	265,254
Culture and recreation	843	-	-	-	496	107,693
Capital outlay	-	-	196,847	40,397	-	237,244
Other purposes	-	104,810	-	-	-	313,414
Unrestricted	-	-	-	-	-	28,394
Total cash and investment fund balance - ending	\$ 843	\$ 104,810	\$ 196,847	\$ 40,397	\$ 496	\$ 1,332,494

CITY OF MARTINSVILLE  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PENSION TRUST FUNDS  
 For The Year Ended December 31, 2007

	Police Pension	Fire Pension	Totals
Additions:			
Contributions:			
Employer	\$ 155,962	\$ 179,156	\$ 335,118
Plan members	4,819	2,409	7,228
State	<u>6,880</u>	<u>6,880</u>	<u>13,760</u>
Total contributions	<u>167,661</u>	<u>188,445</u>	<u>356,106</u>
Deductions:			
Benefits	<u>166,856</u>	<u>176,039</u>	<u>342,895</u>
Excess of total additions over total deductions	805	12,406	13,211
Cash and investment fund balance - beginning	<u>118,676</u>	<u>75,425</u>	<u>194,101</u>
Cash and investment fund balance - ending	<u><u>\$ 119,481</u></u>	<u><u>\$ 87,831</u></u>	<u><u>\$ 207,312</u></u>

CITY OF MARTINSVILLE  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2007

	<u>Payroll</u>	<u>City Court</u>	<u>Totals</u>
Additions:			
Agency fund additions	\$ 4,974,793	\$ 987,953	\$ 5,962,746
Deductions:			
Agency fund deductions	<u>4,974,593</u>	<u>983,443</u>	<u>5,958,036</u>
Excess (deficiency) of total additions over total deductions	200	4,510	4,710
Cash and investment fund balance - beginning	<u>77,187</u>	<u>43,214</u>	<u>120,401</u>
Cash and investment fund balance - ending	<u><u>\$ 77,387</u></u>	<u><u>\$ 47,724</u></u>	<u><u>\$ 125,111</u></u>

CITY OF MARTINSVILLE  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
For The Year Ended December 31, 2007

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,868,015
Infrastructure	7,192,946
Buildings	54,753
Improvements other than buildings	890,487
Machinery and equipment	<u>2,859,673</u>
Total governmental activities, capital assets not being depreciated	<u><u>\$ 13,865,874</u></u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 341,976
Machinery and equipment	<u>32,118</u>
Total Water Utility capital assets	<u>374,094</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	516,550
Buildings	18,783,415
Improvements other than buildings	4,179,929
Machinery and equipment	<u>3,772,331</u>
Total Wastewater Utility capital assets	<u>27,252,225</u>
Total business-type activities capital assets	<u><u>27,626,319</u></u>

CITY OF MARTINSVILLE  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Fire station lease with Government Facility Building Corp	\$ 2,490,000	\$ -
Fire truck	210,819	66,000
Bonds payable:		
General obligation bonds:		
Fire station	1,600,000	115,424
Temporary loan from other funds	265,000	265,000
Temporary loan from Water Utility	50,000	50,000
Total governmental activities debt	<u>\$ 4,615,819</u>	<u>\$ 496,424</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
Water Works Refunding Bonds of 2004	\$ 850,000	\$ 140,955
Total Water Utility	<u>850,000</u>	<u>140,955</u>
Wastewater Utility		
Revenue bonds:		
Sewage Works Refunding Bonds of 2004	855,000	122,190
Sewage Works Bonds of 2004	2,470,000	153,085
Temporary loans from other funds	200,000	200,000
Total Wastewater Utility	<u>3,525,000</u>	<u>475,275</u>
Total business-type activities debt:	<u>\$ 4,375,000</u>	<u>\$ 616,230</u>

The water utility has entered into a loan agreement with the State of Indiana through its revolving loan program to finance water improvement projects. The funds are loaned as the construction costs are incurred.

The agreement provide for maximum loans of \$9,965,000. Annual debt service requirements for the uncompleted loan will not be established until the construction projects are completed. Therefore the outstanding loan balance can not be determined as of December 31, 2007,

The wastewater utility has made loan agreements with the State of Indiana through its revolving loan program to finance various construction projects. The funds are loaned as the construction costs are incurred.

The agreements provide for maximum loans of \$8,300,000. As of December 31, 2007, the loan principal balances have not been determined.

Annual debt service requirements for the uncompleted loans will not be established until the construction projects are completed

CITY OF MARTINSVILLE  
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Local Road and Street	2007	<u>\$ 32,768</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

ACCOUNTS RECEIVABLE (Applies to the Water and Wastewater Utilities)

As stated in prior Report B31211, the Aged Trial Balance report for both the Water and the Wastewater utilities does not agree with the ledger balance of Accounts Receivable at December 31, 2007.

At all times, the manual and computerized records, subsidiary ledgers, control ledger and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TEMPORARY LOANS BETWEEN FUNDS

Various temporary loans were made between funds during the audit period. Not all of these interfund loans were authorized by ordinance or resolution and not all of these interfund loans were repaid by December 31, 2007. Further, no ordinance or resolution was adopted by the common council to extend the repayment period for these temporary interfund loans for an additional six months after year end.

Indiana Code 36-1-8-4 states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

CITY OF MARTINSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
  - (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.
- (b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:
- (1) Passes an ordinance or a resolution that contains the following:
    - (A) A statement that the fiscal body has determined that an emergency exists.
    - (B) A brief description of the grounds for the emergency.
    - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
  - (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."
- Indiana Code 8-1.5-3-12 states:
- "(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for current purposes in anticipation of taxes levied and to be collected during the current or following year.
- (b) The board may by resolution lend money to the municipality if the utility has on hand:
- (1) a surplus of cash exceeding by at least the amount loaned the sum of all amounts required to pay the indebtedness of the utility falling due during the current calendar year and the following year;
  - (2) the amount necessary to meet current expenses during the year; and
  - (3) the amount necessary to pay for improvements contemplated to be made during the current calendar year minus the estimated receipts during the calendar year.
- (c) A loan may not be made for a sum in excess of fifty percent (50%) of the amount estimated to be collected from anticipated taxes. The loan:
- (1) must be evidenced by an obligation of the municipality;
  - (2) must be signed by the executive;

CITY OF MARTINSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) is due on or before thirty (30) days after the last day for the payment of anticipated taxes; and
- (4) may bear interest at any rate as determined by the board, payable at maturity."

OVERDRAWN FUND BALANCE

The Block Grant Law Enforcement Fund was overdrawn in 2007.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

### Compliance

We have audited the compliance of the City of Martinsville (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, the Common Council and Board of Works and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 28, 2008

CITY OF MARTINSVILLE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		
Operation Pullover		None	\$ <u>4,275</u>
Total for federal grantor agency			<u>4,275</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458		
State Revolving Fund Loan 2006 Series		WW0557551	641,433
State Revolving Fund Loan 2005 Series		WW0557551	<u>405</u>
Total for program			<u>641,838</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468		
State Revolving Fund Loan 2007 Series		DW10222101	<u>1,233,153</u>
Total for federal grantor agency			<u>1,874,991</u>
Total federal awards expended			<u>\$ <u>1,879,266</u></u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MARTINSVILLE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Martinsville (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MARTINSVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
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Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
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Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF MARTINSVILLE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF MARTINSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2008, with Mary Lou Peden, Clerk-Treasurer. The official concurred with our audit findings.